Are direct mail advertising materials subject to sales and use tax?

Effective March 1, 2010, direct mail advertising materials that are distributed in Colorado by any person engaged solely and exclusively in the business of providing cooperative direct mail advertising are taxable at the state sales and use tax rate of 2.9 percent but remain exempt from all state-collected city, county, and special district sales tax. (Prior to March 1, 2010, these materials were also exempt from the state sales and use tax.)

Examples of materials subject to states sales and use tax include discount coupons, advertising leaflets, and other printed advertising including accompanying envelopes and labels.

Who collects and remits this tax? The companies that supply materials to businesses engaged solely and exclusively in the business of providing cooperative direct mail advertising are responsible for charging and remitting the sales tax. Direct mail advertising companies are responsible for remitting use tax on purchases of materials that did not include the sales tax.

How to account for this change on the sales tax return: The company supplying materials will include the sales of these items on line 1, Gross Sales and Services, of the Colorado Retail Sales Tax Return (DR 0100) or Online Sales Tax Filing for businesses with only one location.

The companies engaged in providing cooperative direct mail advertising that receive materials, that were not taxed, must file a Consumer Use Tax Return (DR 0252) and remit tax on those materials used or distributed in Colorado.

The company supplying materials will include the sales of these items on line 1, Gross Sales and Services, of the Colorado Retail Sales Tax Return (DR 0100) or Online Sales Tax Filing if the business has only one location.

See the publication Colorado Sales and Use Tax Rates (DR 1002) to determine if these items are subject to or exempt from state-collected city, county and special district taxes.

To view a copy of the legislation, see House Bill 2010-1189.